ID

Distr.
LIMITED

ID/WG.298/5
30 April 1979

ENGLISH

United Nations Industrial Development Organization

Expert Group Meeting on
The Role of the Public Sector in
the Industrialization of the Developing Countries

Vienna, Austria, 14 - 18 May 1979

THE PUBLIC ENTERPRISE AS AN ECONOMIC POLICY INSTRUMENT IN MEXICO*

by

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id.79-4627

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"The public enterprise should in principle be a more flexible instrument of economic policy than private enterprise, because it can be directed either to pursue profit maximization similar to private firms or instead to follow any modification of this criterion that the society is able to define and communicate to management". *

"The public enterprise in developing countries can be a constructive response to the limitations of market systems with weak private entrepreneurship, and perhaps more importantly a way to break out of historically determined constraints on the character of the development process". **

Introduction

The government as an economic agent has been playing a principal role in the Mexican economy in the last decades (1935 - 1975). The importance of the Mexican government's action in the economy has become evident through the use of two types of economic policy instrument: indirect ones, as trade policy, industrial policy, monetary policy, etc., and direct ones through public investment in infrastructure works and public enterprises activities. 1/

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*/ John B. Sheahan, "Experience with Public Enterprise in France and Italy". William G. Shepherd, Public Enterprise: Economic Analysis of Theory and Practice, Lexington, Mass., Lexington Books, 1976, p. 123.

**/ John B. Sheahan, "Public Enterprise in Developing Countries". William G. Shepherd, op. cit., p. 205.

1/ In this essay public enterprises mean all the state majority-and minority ownership enterprises, the decentralized institutions, the trust funds and the national credit institutions. For a broader explanation see Las Empresas Públicas en México, Alejandro Carrillo C. (coordinador) , Instituto Nacional de Administración Pública, México, 1976.

The growth of investment in public enterprises has been of an increasing importance in comparison with the Federal Government investment. Although the public enterprise has been playing its role as a promoter of growth and economic and social development (that is, it seeks to reach different goals besides growth, such as employment, national sovereignity, etc.), it has never been viewed as an economic policy instrument.

The reason for considering the public enterprise as an economic policy instrument arises from the fact of the magnitude and the quuantitative and qualitative importance that the public enterprises have reached in the last years. In 1975, the public enterprises sector represented 11.2% of gross domestic product (GDP), 12.5% of total tax revenues, 32.6% of commodity exports, 38% of commodities imports and more than half of public investment, which in turn represented more than 50% of total domestic investment. The above-mentioned sector also contributed with the totality of the oil, electricity and fertilizers production and more than 60% of national steel production.

The importance of the public enterprises group lies in that the direction and type of action which it takes not only affects its own development, but also the main macroeconomic variables: the economic activity level, the balance of payments, investment and inflation. It is for these reasons that it is necessary to center the action of the public enterprises not only as an instrument for growth and socioeconomic development, but also as an economic policy instrument. It is necessary to plan their operation and growth with well-defined objectives and goals and to also consider their aggregate effect mainly on financing (internal credit, external credit, fiscal and own resources), investment, balance of payments and price stability. This implies the implementatation of adequate administrative reforms to fullfill the planning, coordination, programming, operation, evaluation and control of the public enterprises within a coherent domestic sectorial and economic policy framework which takes into consideration the short, medium and long run objectives.

The purpose of this essay is to analyze with the help of this approach, the historical role and perspective of the public enterprises in the Mexican economic development. The essay is divided in four sections. In the first section, it studies the origin and structure of the Mexican public enterprises, making an international comparison, in order to evaluate in the second section their efficiency in a preliminary way. The third section presents an analysis of the obstacles for their development to finally conclude in the fourth section with recommendations about public enterprises' policy.

I. Origin and Structure of Mexican Public Enterprises and an International Comparison

Origin of public enterprises

The decisive intervention of the State in the Mexican economy began during the government of Lázaro Cárdenas. It is between the years 1935 and 1940 when the Mexican public administration, seeking to promote more efficacy in its functions, resorted to a third type of public institutions [2]. It implemented the creation of decentralized institutions and state-owned enterprises which would be in charge of the new functions that the State was going to perform in the economic, social and cultural fields.

The objetive of the new institutions was to avoid an excessive centralization which could hinder, among other things, timely decision making and efficient satisfaction of the public services.

These institutions were created because of several factors, among which the following stand out:

a) The State's decision to create institutions that could carry out fuctions which it did not perform at that time but considered necessary to give certain stability to the economic system. This was the case of the central bank [3] which was initially created to satisfy the need of a sole money issuer. Other public enterprises were considered essential to promote sustained socioeconomic development.

b) The direct supply and exploitation of basic and strategic resources to guarantee, through the State's control, national sovereignity and supply of certain public services considered of national interest also. This is the case of the nationalization of oil (PEMEX) and electric energy (CFE).

c) The participation in certain economic activities, which did not represent basic services for the nation, but constituted however activities that had not always been adequately covered by the private sector. In some cases, this characteristic developed because of the high investment

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2/ The other two types of public institutions were the Secretaries and the Administrative Departaments.

3/ The Bank of Mexico was created in 1925, but the Law of April 12th, 1932, eliminated the Bank's operations with the public, and gave it the characteristics of a central bank in charge of the issuance of new money and the regulation of the money supply.

requirements and the long payback periods of certain economic activities. In others, the creation of public enterprises developed through the purchase of private ones which were about to be shut down because of financial constraints. They were bought by the State, in order to pursue a policy of maintaining job opportunities and also due to the need to keep certain basic activities that the national economy's operation required for minimal integration. This is the case of Altos Hornos de México, Siderúrgica Lázaro Cárdenas-Las Truchas and Guanos y Fertilizantes de México.

d) Public sector's need to own enterprises in order to pursue social welfare objectives, to improve the conditions of some sectors of the population and to act as a regulating instrument of the market system. This is the origin of the creation of the Compañía Nacional de Subsistencias Populares (CONASUPO).

In recent years, public enterprises have become more important and have played a more preponderant role within the economy. In analyzing the contribution of the public enterprises to gross domestic product, it can be noted that they have experienced a very dynamic behavior. During the period 1970-1975, the gross domestic product grew at an average annual rate of 18.6%, whereas the public enterprises' product grew at a rate of 26%.

In 1976, the number of registered public enterprises at the Secretary of National Patrimony was 845, from which the state majority-ownership enterprises stand out with 43%, the decentralized institutions with 21% and the state minority-ownership enterprises with 6%. In 1975, the trust funds represented 40% of the total enterprises (806), but, by 1976, their number decreased significantly (211 trust funds) representing only 25%. This reduction resulted from the reform that the Secretary of Public Financing and Credit carried out with respect to trust funds (Table 1).

The public enterprises structure

In the 1970-1976 period, the public sector investment grew at an average annual rate of 23%, which was higher than the one registered by the whole economy. In particular in 1972 and 1973, public investment increased at a higher rate in proportion tothe private, in order to reactivate the economy after the 1971 recession. In this form the State confirmed its economic activity promotion role in times when the private investment was stagnant.

TABLE 1

PUBLIC INSTITUTIONS REGISTERED IN THE SECRETARY OF NATIONAL PATRIMONY
1970 - 1976

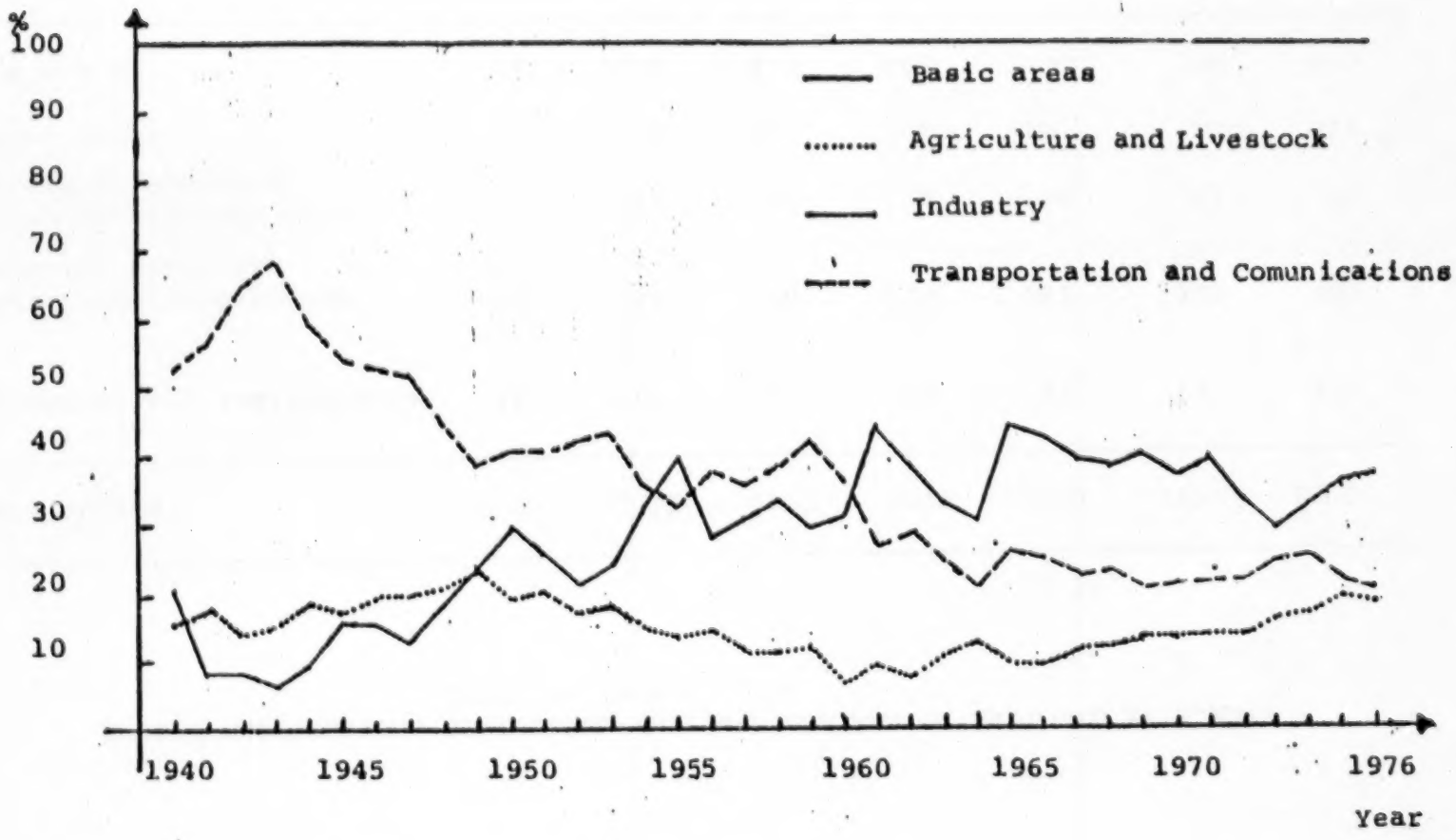
INSTITUTIONS	1970	1971	1972	1973	1974	1975	1976
Decentralized institutions	45	54	61	63	65	117	176
State enterprises with majority ownership	39	148	176	229	282	323	403
State enterprises with minority ownership	-	27	24	28	36	41	55
Trust funds	-	48	167	383	387	325	211 *
T o t a l	84	277	428	703	770	806	845

* The reduction in the number of trust funds during 1976 was owed to a depuration carried out by the Secretary of Public Financing and Credit and the Secretary of National Patrimony.

SOURCE:
Secretary of National Patrimony, Annual Report.

CHART 1

PUBLIC INVESTMENT BY SECTOR



Source: Table 2

In 1976, public investment amounted to107 818.6 millions of pesos (50% of national investment), of which 37.5% was allocated to industrial promotion, 20.5% to communications and transportation, 18.6% to agriculture promotion, 19% to social welfare, 3.3% to administration and defense and 1.1% to tourism (Table 2 and Chart 1).

The public enterprises participation was mainly oriented to promote industrialization, so, to foster economic development the State has assigned its resources to the production of strategic goods and services. Therefore, 65% of the public enterprises investment was channelled to electricity generation and to oil and gas extraction and refining; 17.5% to steel production and 16.4% to mining and other industries.

The public enterprises production of goods and servicies is analyzed in 1972, through its contribution to gross domestic product. In that year, the public enterprises accounted for 9.47% of the total GDP, which amounted to 325 534 millions of current pesos, although in the same year the public investment represented only 43% of total investment. This is because investment of the public enterprises sector is 2.4 times higher in capital intensity (total fixed asset/hired man) and because of the long maturity period of these investments (Table 3).

With relation to the contribution of the public enterprises sector to the activity branches that make up GDP, their shares in the following activity branches are important: 79.6% for electricity, gas and water supply: 61.6% for oil extraction and refining, coal by-products and basic petrochemicals; 39.3% for communications and transportation and 10.7% for manufacturing industry.

Finally, considering the individual branches' contribution to the public enterprises' GDP, that is, to the 9.47% of total GDP, it can be noted that 29% is produced by the manufacturing industry, 20% by oil extraction and refining, coal by-products and basic petrochemicals, 12% by electricity, gas and water supply and 11% by communications and transportation.

International comparison

At present, the State's participation in the Mexican economy has been widely discussed, and it is considered that the public sector has great intervention in the economic activity.

In relation to investment, the public sector's participation has been important; however, the long maturity period and high capital intensity of these investments have resulted in that their actual share in the

T A B L E 2

Federal Public Investment by Sector

(Millions of pesos at current prices and percentages)

S E C T O R	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957
Total investment (millions of pesos)	290.0	337.0	464.0	568.0	657.0	848.0	999.0	1,310.0	1,539.0	1,956.0	2,672.0	2,836.0	3,280.0	3,076.0	4,183.0	4,408.0	4,571.0	5,628.0
Agriculture and livestock	15.2	17.5	14.0	15.1	18.6	17.0	19.3	19.7	20.7	23.4	19.3	20.4	17.1	18.3	15.0	13.7	14.2	11.9
Industry	20.7	8.3	8.2	6.3	9.6	15.6	15.3	12.8	18.1	24.1	29.8	25.8	21.3	24.8	32.6	39.4	28.2	31.2
Transportation and communications	52.4	56.1	64.7	68.1	59.2	54.3	52.7	51.5	44.2	38.8	40.3	40.8	42.0	43.7	35.6	32.3	37.3	35.9
Social welfare	10.0	16.1	11.6	9.0	10.8	10.7	10.6	13.8	15.7	12.1	9.6	12.2	18.3	8.4	9.4	13.6	18.3	18.6
Administration and defense	1.4	2.0	1.5	1.5	1.8	2.2	2.0	2.2	1.2	1.5	1.0	0.7	1.3	4.8	7.4	1.0	1.0	2.2
Tourism	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	0.3	-	-	-	-	0.2	0.1	-	0.1	0.1	-	0.1	-	-	-	-	1.0	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Secretary of the Presidency, Federal Public Investment in Mexico. 1925-63, 1965-70, 1971-76.

TABLE 7

(CONTINUATION)

FEDERAL PUBLIC INVESTMENT BY SECTOR

(Millions of pesos at current prices and percentages)

Sector	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976*
Total investment (millions of pesos)	6,190.0	6,537.1	8,176.7	10,312.2	10,871.4	11,820.8	17,416.1	16,301.1	20,663.1	22,000.0	24,000.0	27,500.0	30,250.0	28,538.1	42,057.1	57,606.3	62,707.0	99,051.0	107,810.
Agriculture and livestock	11.1	11.5	6.9	9.2	7.6	10.7	12.6	9.5	9.1	10.6	12.0	11.1	11.2	11.6	11.8	16.0	16.9	19.1	18.5
Industry	33.7	29.8	31.7	44.4	38.8	33.1	30.5	44.5	47.6	39.6	38.4	40.1	37.2	39.6	33.9	29.5	33.0	26.7	37.5
Transportation and Communications	38.4	42.0	40.0	22.0	28.8	24.6	21.0	26.5	25.0	21.0	23.5	21.0	21.5	21.7	21.9	24.7	25.1	21.3	20.5
Social welfare	14.4	13.7	22.5	16.9	21.0	29.8	31.8	17.5	22.1	22.9	24.6	24.3	25.4	22.7	26.4	26.0	21.9	18.7	19.5
Administration and defense	2.4	1.8	2.1	2.4	1.5	1.1	0.1	2.0	1.0	1.9	1.5	1.5	1.7	2.2	3.4	2.6	1.9	2.6	1.0
Tourism	-	-	-	-	-	-	-	-	-	-	-	-	-	0.2	0.6	1.2	1.2	1.6	1.0
Others	-	1.7	1.1	0.1	0.1	-	1.2	-	-	2.0	-	-	1.0	-	-	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.

Source: Secretary of the Presidency, Federal Public Investment in Mexico, 1925-61, 1965-70, 1971-76.

* preliminary estimates

TABLE 3

PUBLIC SECTOR PARTICIPATION BY ECONOMIC ACTIVITY

1972

(Millions of pesos at current prices)

Economic Activity	GDP (1972) Total	Public Sector	Participation %
Total	525 534	49 355.8	9.4
Agriculture, livestock, forestry and fishing	50 577	162.9	0.3
Agriculture and livestock	47 561	102.0	0.2
Forestry	1 925	57.8	3.0
Fishing	1 091	2.8	0.2
Mining and quarrying exploitation	5 498	207.2	3.8
Metallic minerals	3 180	76.1	2.1
Non-Metallic minerals	2 318	131.1	5.6
Manufacturing industry	134 916	14 420.0	10.7
Food Processing	21 474	776.7	3.6
Beverages	10 121	11.7	0.1
Tobacco products	2 380	—	—
Textile products	11 093	257.1	2.3
Footwear, clothing, and weaving	17 001	51.4	0.3
Leather goods	1 539	—	—
Wood and cork production	1 881	40.0	2.1
Paper and paper products	3 146	206.6	6.7
Printing and publishing industries	3 326	44.5	1.3
Rubber and plastics production	11 406	780.0	6.8
Petroleum: crude oil, refined products and petrochemicals	15 716	9 680.8	61.6
Non-metallic mineral products	6 415	18.5	0.3
Basic metal industry	6 247	1 264.9	20.2
Metal products except machinery and transportation equipment	4 897	143.5	2.9
Communications and transportation equipment.	7 188	1 144.3	15.9
Other metal products	11 136	—	—
Contruction	27 086	221.4	0.8
Electricity, gas and water supply	7 286	5 723.0	79.6
Commerce	151 470	7 053.8	4.6

SOURCE: Bank Of Mexico, Annual Report, 1972.
Secretary of National Patrimony.

TABLE 3 (continuation)

PUBLIC SECTOR PARTICIPATION BY ECONOMIC ACTIVITY
1972
(Millions of pesos at current prices)

Economic Activity	GDP (1972) Total	Public Sector	Participation
Transportation and communications	13 470	5 304.6	39.3
Transportation	9 909	3 420.2	34.5
Communications	3 561	1 884.4	____
Services	129 164	16 262.7	12.6
Residue	6 067	___	____

SOURCE: Bank Of Mexico, Annual Report, 1972.
Secretary of National Patrimony.

production of goods and services is not as high as it is believed to be.

A comparison between the public enterprises' participation in Mexico's gross domestic product and their participation in capitalist and socialist developed countries shows that the Mexican State's participation is neither near the degree of participation in socialist countries nor in capitalist countries.

Table 4 shows that the public enterprises' sector participation in the Mexican economy was 9.4% in 1972 and this percentage is below the State's participation in capitalist countries especially in the United States (15%), France (17%) and the United Kingdom (25%). Compared to socialist countries, the Mexican participation is seven times less than the State's participation in the German Democratic Republic (71%), six times less than in the Union of Soviet Socialist Republics (59%) and five times less than in Poland (48%).

It can be noted that the structure of the public enterprises' participation in the Mexican economy is similar to the capitalist countries' structure, in the sense that the stronger participation is located in electricity, communications and transportation and the lower one in trade, finance and agriculture. However, in the Mexican case, there is a higher participation in the industrial sector compared to other capitalist countries, although it is significantly less than in the socialist countries. The reason behind this is that in the past 35 years, the industrial sector has been the driving force in the Mexican economy and it is in this sector where the main obstacles to development have appeared, which in turn have caused a more intensive State participation.

Comparing the public enterprises' sector participation in the industrial sector (Table 5), it can be noted that with respect to the developed capitalist countries, Mexico has a more diversified participation. Its participation centers mainly in oil, transportation equipment, basic metal industry, chemical industry, paper and cellulose.

In general terms, it can be concluded that although the public enterprises' sector participation in the Mexican economy is undoubtedly important, in quantitative and qualitative terms, the degree of mixed economy that it represents is not only significantly less than in the socialist countries, but also than in the developing capitalist countries differing only from the latter in the composition of their participation in the economy.

TABLE 4

PUBLIC SECTOR PARTICIPATION IN THE GDP BY COUNTRIES

(Percentages)

SECTOR	Japan	Switzerland	U.S.A.	France	Sweden	Un. Kingdom	Yugoslavia	Austria	Finland	Bulgaria	Poland	Soviet Union	East Germany	Mexico
	1960	1960	1960	1954	1960	1962	1953	1966	1965	1965	1960	1960	1964	1972
TOTAL	10%	11%	15%	17%	20%	25%	30%	31%	34%	37%	48%	59%	71%	9.4%
Electricity, gas and water supply	20	60	28	83	71	70	100	100	53	100	100	100	100	70.6
Communications and transportation	42	63	18	69	53		100	78	59	100	96	100	96	39.3
Services (public administration, defense, etc.)	40	31	46	41	56	87	86	59	77	97	90	98	84	12.6
Construction	14	6	12	1	12	8	100	4	31	96	90	100	67	0.8
Industry	0	1	1	8	4	9	72	25	14	85	83	93	84	10.4
Commerce and finance	0	2	1	5	5	N.A.	79	18	3	96	53	92	55	4.6
Agriculture, forestry and fishing	1	3	1	N.A.	5	2	3	6	17	6	8	14	17	0.3

N.A.: Not available

Source: William G. Shepherd, Public Enterprise: Economic Analysis of Theory and Practice 1976. Table 1-3, p. 11.

Bank of Mexico, Annual Report 1972.

TABLE 5

PUBLIC SECTOR PARTICIPATION IN THE INDUSTRIAL GDP BY COUNTRIES

(Percentages)

Branch of economic activity	Japan 1960	Greece 1963	Switzerland 1960	U.S.A. 1960	West Germany 1950	Norway 1964	France 1954	Israel 1965	Finland 1963	Poland 1960	East Germany 1964	Hungary 1966	Bulgaria 1956	Mexico 1972
Industrial sector	0	0	1	1	1	6	9	9	13	79	83	84	85	10.4
Mining and quarrying	0	3	2	0	12	23	64	24	59	100*	100*	100*	100*	3.8
Transportation equipment	0	1	2*	6	3	15	17	25	34	95	99	97	93	15.9
Petroleum and coal	0	1	0	0	0	18	64*	0	65	100*	100*	100*	100*	61.6 [1]
Basic metal industry	0	0	0*	0	2	26	0	0	22	100	100	99	100	20.2
Chemicals	0	0	1	1	0	0	8	29	29	88	93	91*	96*	6.8 [2]
Printing and publishing industry	2	3	0	1	0	1	6	8	3	75	74	99	94	1.3
Machinery, except electric machinery and transportation equipment	0	0	2*	0	1	0	7	11	19	96	82	92	93*	0
Tobacco products	100	1	0	0	0	0	99	5*	0	62*	96	84*	96*	0
Non-metallic mineral products	0	0	0	0	1	2	0	10	1	87	91	97	96	0.3
Electric machinery	0	0	2*	0	0	2	0	8	5	93	86	96	93*	-
Beverages	0	0	0	0*	8	0	0	5*	18	62*	91	98	96*	0.1
Metal products except machinery	0	0	0*	5	0	14	0	3	7	61	95	75	58	2.9 [3]
Food processing	0	0	1	0*	0	3	0	5*	0	62*	53	98*	96*	3.6
Paper and paper products	0	0	0	0	0	1	0	0	24	74	84	89	100	6.7
Textiles	0	0	0	0	0	1	0	5	0	94	86	98	92	2.3
Wood industry	0	0	0*	0	0	3	0*	2*	11	66*	58*	64*	100	2.1
Rubber products	0	0	0	0	0	0	0	0	0	89	98	91*	96*	-
Footwear and clothing	0	0	2	0	0	1	0	6	1	39	70	50	38	0.3
Furniture	0	0	0*	0	0	0	0*	2*	4	66*	58*	64*	62	0
Leather goods except footwear	0	0	0	0	0	0	0	1	1	48	42	61	53	0
Others	0	0	0	1	0	0	0	4	4	27	84	42	94	0

* The branch data are given aggregate

1 Includes basic petrochemicals

2 Includes rubber products and plastic materials

3 Includes electric metal products

SOURCE: William G. Shepherd, Public Enterprise: Economic Analysis of Theory and Practice, 1976, Table 1-4, pp.12-13.
Bank of Mexico, Annual Report, 1972.

II. Preliminary Evaluation of the Public Enterprises' Role in the Economic Development of Mexico

Evaluation criteria

Generally, the public and private enterprises' development is viewed under the same framework , without taking into consideration that the objectives of both types of enterprises and, therefore, their evaluation criteria are different. The most important element which defines the evaluation pattern of both types of enterprises is given by the concept of effectiveness and efficiency.

In its broader meaning, an effective policy or action is when the planned objectives are reached and it is efficient when the above - mentioned objectives are reached with a minimum loss of resources.

The concept of medium-and long-run efficiency for a private enterprise in a mixed capitalist system boils down to maximize profits with a minimum loss of resources for the enterprise. In this manner the private enterprise seeks a clear and well-defined objective. In this case we are referring to market efficiency.

Because the private enterprise's mechanism to set objectives has an explicit and unique character that is generally confined to the firm, a relatively simple administrative system can be determined through which the owners' and collaborators' efforts can be coordinated. In addition, the different factors that the private enterprise should take into account to achieve its objective are given. Therefore its price system (except in the case of monopsony or monopoly or any of their variants) is a set of exogenous variables that the private enterprise takes as given to maximize profits and to minimize costs.

The efficiency concept for a public enterprise is broader and more complex. The public enterprise's objectives are generally not only of a strictly economic nature, but of a socio economic nature as well. This determines a different mechanism to select and to set objectives than the one determined for the private enterprise.

The following economic and social policy objectives are the ones that a public enterprise should pursue in the present development stage of the country; to accelerate its GDP 's growth and thereby generate profits to finance its investment growth, increase the employment level, guarantee the national sovereignity and the domestic production in strategic sectors, improve the balance of payments and promote a better income distribution between factors and between regions.

The economic and social policy objectives are diversified and moreover,

for a specific public enterprise, their priority should vary depending on its nature.

In this way, a public enterprise will be efficient depending on the degree of attainment of its economic and social policy objectives with the least loss of resources, not in terms of the firm, but of the country as a whole. In other words, its efficiency should obey to a social benefit-cost model established by the community and not necessarily by the market. It is for this reason that the price system for a public enterprise is a set of "endogenous variables", which it should be able to modify in order to determine the shadow or social prices that represent the community's opportunity costs.

In addition to the social price system on which the public enterprise operates, the framework for its evaluation should also consider the direct and indirect effects of its activity on other economic entities. In this case we refer to social efficiency as an evaluation criterion for the public enterprise. This does not signify however , that this enterprise should not be profitable in terms of the market, it means that it should consider the above-mentioned factors in determining its profitability in social terms.

Therefore, the evaluation criteria for a public and a private enterprise are different, because the evaluation of the public enterprise's efficiency has to be analyzed in terms of fulfillment of the established objectives and in reference to a price system that reflects the social opportunity cost and to the direct and indirect effects that the enterprise itself causes on other economic entities.

Preliminary evaluation

The public enterprises' efficiency evaluation requires a detailed and careful analysis. However, it is important to assess in a preliminar and general way the effect of the public enterprises' sector in the Mexican economy in recent years

A general evaluation of these enterprises has to consider their social efficiency (that is, their effect on growth, employment, balance of payments and fiscal revenues) and market efficiency.

As Table 6 shows in current prices, the public enterprises sector GDP grew at an average annual rate of 26%, which was much higher than the economy's growth (18.6%) for the five-year period 1970 - 1975. Consequently, the sector increased its participation in the economy's production from 8.3 to 11.2% in the same period. However, the qualitative effect of the public enterprises' sector is more important, because the production increases were

TABLE 6

PUBLIC SECTOR : ECONOMIC INDICATORS . 1970 - 1975 *
(Millions of pesos at current prices, percentages)

Economic indicators	1970 value	1971 Value	1971 Percent change	1972 Value	1972 Percent change	1973 Value	1973 Percent change	1974 Value	1974 Percent change	1975 Value	1975 Percent change	1970-75 percent change	Annual growth rate 1970-75
Gross domestic product	418 700	452 400	8.0	512 300	13.2	620 700	21.2	812 900	31.0	981 170	20.7	134.3	18.6
Public sector participation	34 900 8.3	40 170 8.9	15.1	49 356 9.6	22.9	59 574 9.6	20.7	85 654 10.5	43.8	109 448 11.2	27.8	213.6	26.0
Tax revenues	29 792	32 554	9.2	37 836	16.2	47 979	26.8	67 224	34.5	96 215	43.1	223.0	26.5
Public sector participation	2 865 9.6	3 006 9.2	4.3	3 755 9.9	24.9	3 727 7.8	- 0.7	7 005 10.4	87.9	12 028 12.5	71.7	319.8	33.5
Population economically active (000)	13 181	13 697	3.9	14 232	3.9	14 787	3.9	15 840	7.1	16 597	4.8	25.9	4.7
Employment in the public sector participation	411 3.1	438 3.2	6.5	494 3.5	12.6	537 3.6	8.8	618 3.9	15.2	672 4.1	8.8	63.5	10.3
Exports	17 162	18 431	7.3	20 816	12.9	25 861	24.3	35 625	37.6	35 733	0.3	203.2	15.0
Public sector participation	2 933 17.1	3 426 18.6	16.8	4 123 19.8	20.3	5 628 21.7	36.5	9 891 27.8	75.7	11 635 32.6	17.6	389.7	32.0
Imports	29 085	28 175	-3.1	33 973	20.6	47 667	40.3	75 708	58.8	82 252	8.6	282.8	20.0
Public sector participation	6 970 24.0	5 665 20.1	-18.7	8 066 23.7	42.4	15 283 32.0	89.5	27 525 36.4	80.1	31 226 38.0	13.4	448.0	23.0
Trade balance	-11 823	-9 744	-18.3	-13 157	35.0	-21 786	65.6	-40 083	84.0	-46 519	16.0	390.2	31.0
Public sector participation	- 4 037 33.9	-2 239 22.3	-44.5	- 3 943 30.0	76.1	- 9 655 44.3	144.8	-17 634 44.0	82.6	-19 591 42.1	11.1	485.3	37

* It does not include state enterprises with minotiry ownership.

Source: Secretary of National Patrimony, Annual Report, 1973 - 1974.

registered in energy (oil and electricity), basic petrochemicals, steel, metal machinery industry and fertilizers.

The contribution of the public enterprises sector to tax revenues grew also at a higher average annual rate (33.5%) than the one of the national economy (26.5%), which resulted in that their participation in total tax revenues increased to 12.5 % in 1975.

The employment participation of the public enterprises sector has also risen, because it grew at an average annual rate of 10.3%, that is, almost double of the employment growth rate registered for the national economy (4.7%). Nevertheless, it is important to notice that in 1975 the public enterprises only employed 4.1% of the economically active population.

With reference to the external sector, public enterprises have played an important role in recent years by exporting commodities at an average annual rate of 32%, when the economy's exports of goods grew only at an average annual rate of 15.8%. Thereby, the public enterprises sector increased its share in the external sales of goods from 17.1% in 1970 to 32.6% in 1975. However, the nature of the public enterprises and the type of investment they require, together with the lack of an integrated public sector imports' policy, have caused a more important contribution of the public enterprises sector to the disequilibrium in the trade balance, raising its participation from 33.9 to 42.1% in the period 1970 - 1975.

The information on public enterprises' market profitability (net profits) seems to contradict the generalized idea that the public enterprises produce losses and that most of them present red numbers. In a study carried out by the Secretary of Industry and Commerce and the Faculty of Commerce and Administration of the Universidad Nacional Autónoma de México, 4/ where the 203 most important industrial enterprises of the country were analized, the following results were found: in 1973, of the 203 enterprises, 15 of them reported losses during the year, and of these only 6 belonged to the public enterprises sector. In 1974, 11 firms reported losses, and only 2 of them were public enterprises.

An analysis of some basic indicators of the industrial census of 1970 shows that the public enterprises industrial sector paid 70% more total annual wages by hired person (34 669 pesos) than the national industry. Nevertheless, each hired man, produced a value added higher than 70%, that is, 90%, but it used 2.4 times more capital. It is in this area where a

4/ Serie: La Empresa , " Empresas industriales del país"(Datos Económicos), Secretaría de Industria y Comercio , México, 1975.

more detailed analysis is required to determine whether the public enterprises sector is more capital intensive, because of the nature of the branches where it is located and/or because it is over-capitalized.

The saving capacity and investment self-financing in the public enterprises have remained practically unchanged during the last 25 years; it amounts to 25% of the total investment (Table 7 and Chart 2). However, the low capacity to increase tax revenues and public sector's savings have brought about a lower fiscal resources contribution to the investment financing of expansion programs and public enterprises' new projects (its contribution decreased to nearly 25% in the seventies). This situation has been creating a higher dependency on external and internal credit. While in the fifties, a 15% of total investment was financed with external credit and 9% with internal credit, both figures have increased to 21% and 25% respectively, in the seventies. This should force the public enterprises sector to increase its saving capacity in the future and should force the fiscal sector as well, because otherwise, this situation will cause an excessive public enterprises' debt which will eventually hold back their development 5/.

This brief analysis and the before-mentioned indicators do not allow to reach definitive conclusions, rather to establish in a preliminary way the approach and the evaluation criteria to determine the role that the public enterprises have played regarding the different objectives of economic polices.

5/ The fiscal sector contribution will depend not only on a rational expenditure policy, but also on an adequate fiscal policy to increase the economy's tax rate from 12 to 19% in this six-year period (1977 - 1982).

TABLE 7

PUBLIC SECTOR INVESTMENT BY SOURCES OF FUNDS

MILLONS OF PESOS

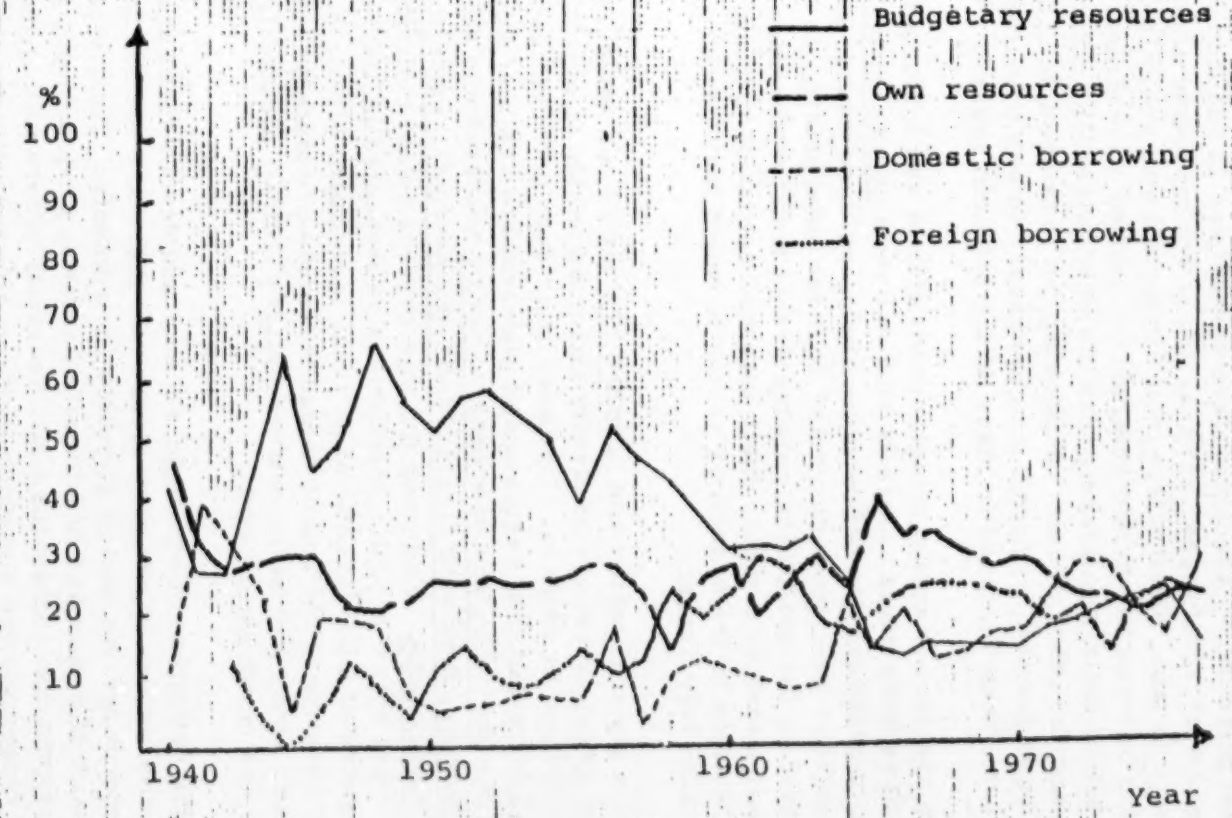
Year	Total	Budgetary Resources	%	Own Resources	%	Domestic Borrowing	%	Foreign Borrowing	%
1940	290	119	41.0	139	45.5	32	11.0		
1941	337	93	27.6	109	32.3	135	40.0		
1942	464	126	27.1	130	28.0	150	32.3	58	12.5
1943	569	249	43.8	163	28.7	139	24.5	17	3.0
1944	657	424	64.5	203	30.9	28	4.3	2	0.3
1945	848	375	44.2	259	30.5	172	20.3	42	4.9
1946	999	433	43.3	227	22.7	202	20.2	137	13.7
1947	1,310	662	50.5	290	22.1	256	19.5	102	7.8
1948	1,539	1,008	65.5	368	23.9	102	6.6	61	4.0
1949	1,956	1,087	55.6	530	27.1	96	4.9	243	12.4
1950	1,672	1,387	51.9	711	26.6	139	5.2	435	16.3
1951	2,836	1,602	56.5	783	27.6	155	5.5	296	10.4
1952	3,280	1,915	58.4	850	25.9	232	7.0	283	8.6
1953	3,076	1,673	54.4	853	27.7	210	6.8	340	11.0
1954	4,133	2,125	50.8	1,086	20.0	284	6.8	688	16.4
1955	4,408	1,744	39.6	1,288	29.2	854	19.4	522	11.8
1956	4,571	1,448	53.6	1,380	30.2	124	2.7	619	13.5
1957	5,623	2,679	47.6	1,449	25.7	676	12.0	824	14.6
1958	6,190	2,739	44.2	915	14.8	891	14.4	1,645.0	26.6
1959	6,532.1	2,539.2	38.9	1,792.2	27.4	822	12.6	1,378.0	21.1
1960	8,376.2	2,813.4	33.6	2,578.0	30.8	868.8	10.4	2,116.0	25.3
1961	10,372.2	3,549.5	34.2	2,268.7	21.9	1,059.0	10.2	3,495.0	33.7
1962	10,823.4	3,675.6	34.0	3,063.8	28.3	852.3	7.9	3,231.7	29.9
1963	13,820.8	4,899.5	35.5	4,697.7	34.0	1,277.7	9.2	2,945.9	21.3
1964	17,436.1	4,914.3	28.2	4,741.8	27.2	4,378.3	25.1	3,184.9	13.3
1965	16,301.1	2,905.0	17.8	6,999.6	42.9	2,603.8	16.0	3,792.7	23.3
1966	20,668.9	3,048.5	14.7	7,346.5	35.5	4,859.9	23.5	5,414.0	26.2
1967	22,000.0	3,800.0	17.2	7,900.0	35.9	4,300.0	19.5	6,000.0	27.3
1968*	24,500.0	4,100.0	16.7	8,210.0	33.5	4,890.0	20.0	6,600.0	27.0
1969	27,500.0	4,400.0	16.0	8,800.0	32.0	6,400.0	23.2	7,100.0	25.8
1970	30,280.0	4,850.0	16.0	9,775.0	32.3	7,060.0	23.3	7,655.0	25.3
1971	28,533.1	5,906.2	20.7	8,386.1	29.4	7,359.4	25.3	5,982.6	21.0
1972	42,056.5	9,056.7	21.5	8,643.4	20.5	13,106.5	31.1	9,718.6	15.8
1973	57,606.3	14,245.6	24.7	14,484.8	25.1	17,806.7	30.9	9,093.5	15.8
1974	69,207.0	17,289.4	25.0	16,568.9	23.9	15,854.9	22.9	17,762.6	25.7
1975	99,053.0	27,979.9	28.2	25,019.9	25.3	17,762.1	17.9	25,901.9	26.1
1976	106,045.8	26,185.9	24.7	33,589.6	31.7	15,748.2	24.3	18,430.8	17.4

* From 1968 to 1976 figures do not add up to the totals because of an aditional element (cooperations) which represents less than 2.4%.

SOURCE: Secretary of the Presidency, Federal Public Investment 1925-1963, 1965-1970 and 1971 1976.

CHART 2

PUBLIC SECTOR INVESTMENT BY SOURCES OF FUNDS



Source: Table 7

III. Obstacles to the Public Enterprise Development as an Economic Policy Instrument

Independently of the important role that consciously is assigned to the public enterprise in economic development and in addition to some of its "theoretic" advantages, several important problems should be considered. In fact, these affect in an important way not only the relationship between the public enterprises and the government, but they also affect their relationship with the private sector, other countries and the labor sector. Following, an enumeration of these problems is presented, although it is necessary to say that important advances have been achieved in many of the problem areas.

The major problem is that although recent efforts and important decisions have been made, there is still not yet a general public enterprises policy. It is necessary to define objectively and in substance the "social role" and the "economic role" of these enterprises, to be able to establish the evaluation parameters of their performance. These should consider not only their internal operation but also their relationship to the branch or sector to which they belong and to the community they assist.

The lack of a general policy and of more precise policy decisions reflects the great variety, complexity and multiplicity of objectives of more than 800 public entities. However, this does not invalidate the need to find formulas that regulate and differentiate and that would make possible the definition of a general policy necessary to select a development strategy with clearly-defined objectives, priorities, goals and instruments. The need for this general policy becomes obvious when it is noted that the public enterprises represented in 1975 an important share of GDP (11.2%) of national investment (25%), of exports (32.6%), of imports (38%) and of domestic supply of strategic industrial products such as oil and basic petrochemistry (100%), electricity (100%), steel (60%) and fertilizers (100%).

However, the definition of strategic sectors and development areas of the public enterprises is not very clear, and there are not available enough elements for the design of policy instruments. This is partially due to the lack of a plan and of adequate sectorial programming and projects' formulation and evaluation. Sectorial programming makes possible to determine the direction of the public sector's expansion and the correct projects' formulation and evaluation that would allow the ranking of projects in the public sector's development plan and program.

In general, the public enterprises' legal-administrative framework is still weak in terms of their planning, operation, evaluation and control. A very important problem that arises is that while in the case of projects for the establishment of private enterprises, the objectives are clear and specific, in the public enterprises the projects have a multiplicity of objectives (such as to make good use of resources, to build social housing, to endow certain areas with infrastructure, to export, to make profits, etc.), which are not examined in terms of their coherency and feasibility. The outcome is often not clear, because there are no real evaluation criteria in addition to the fact that many objectives are mutually contradictory. 6/

There is also a lack of adequate public enterprises coordination within each sector and this causes often duplicity in investments. It is often necessary to add the basically political criterion under which the managing members of the firms are designated and the generally negative impact of this practice in the development of the enterprises.

On the other hand, the public enterprises group is not well-integrated in three principal areas: production, because of the lack of adequate sectorial programs; marketing, because of the lack of information about suppliers, markets and bargaining conditions of the government, and finance, because of the incapacity and lack of coordination of the credit institutions and the isolated short-run criterion that rules the public enterprises' debt.

There is no clear definition of the relationship between the public enterprises and the firms and/or national industry sectors, and not even with the multinational enterprises. This definition becomes necessary in order to integrate feasible industrial development policies (or of some other type) at the national level, like the Alliance for Production program of the present administration.

In the same way, there is not a unified labor policy in the public enterprises that is related to the country's general policy. These enterprises unions establish often a privileged elite, that represents serious problems in the area of adapting salaries and fringe benefits with efficiency.

6/ The administrative reform of December 1976 corrects deficiencies in this aspect. See the Organic Law of the Federal Public Administration, Diario Oficial, December 29th, 1976, México, D.F.

The public enterprises make important external purchases and contribute also in an important way to exports. However, many of these purchases could be rationalized and ranked by priority, and some of them could be made domestically. The Public Sector Imports Committee is not adequately informed nor acts with the proper anticipation at the moment of deliberation, and moreover, it does not have political power vis-a-vis certain firms.

In addition, there is not a global program to promote the gradual incorporation of national suppliers and the public sector's foreign exchange budget has not been drawn up. There is also a need for a permanent policy to encourage the public sector's exports which should include incentives to increase competitiveness as well as to cover the costs of studying new markets.

In the public enterprises investment-financing policy, there is a lack of a long-run investment program, and this omission has caused interruptions and damages with high costs that have involved a long chain of suppliers, producers and consumers.

The deficient programming of public expenditure is the result of this lack of a long-run investment program. Above all the deficient public expenditure control, which does not regulate its level and composition, causes arbitrary cuts to many investment programs in maturity process. The nature of public enterprises investment, their low self-financing capacity and the state's limited capacity to provide new fiscal resources for investment have strengthened the public enterprises' dependency on internal and external credit as their financing sources. This obstacle to the public enterprises' growth makes it necessary to assign priority to the market profitability criterion (net profits over total assets) within the general efficiency criterion. This priority should be assigned at least in the short and medium run, so that these enterprises will strengthen their self-financing capacity and assure in this way the development of their expansion programs, without neglecting their other socioeconomic objectives.

The "policy" of subsidies, transfers and credit assistance lacks adequate and explicit efficiency criteria. This hinders the drawing up of realistic analysis and financial policies, which in turn affects negatively the firms and the government in the long run. At the same time, the performance of management in these enterprises cannot be evaluated adequately. From the firm's point of view, it is not the

same to manage a firm with a healthy financial structure, than to manage one with an unbalanced structure. From the national credit institutions point of view, the debt and interest accounts of the public enterprises grow, but the institutions know that there is in practice no possibility to collect them. In consequence, there exists a system where everybody conceals everybody, except the real situation.

The lack of a flexible price and tariff policy, in accordance with the relative scarcity of the good or service produced and/or its social need, has created a hindrance for the expansion programs of important public enterprises, as well as a remarkable increase in their external debt. In the period 1960-1970, PEMEX, CFE and Ferrocarriles Nacionales transferred through prices and tariffs subsidies in an amount of 24 645 millions of current pesos to the rest of the economy.

The CFE (Federal Commission of Electricity) transferred 7 959 millions of pesos in the period from its nationalization in 1963 up to 1970. This figure contrasts with its external debt figure of 1 491 millions of pesos at the December 31st, 1968; this is a transfer equivalent to 5.3 times its debt until 1968. PEMEX made a transfer of 12 879 millions of pesos during the period 1960-1970, which contrasts with its level of external debt of 3 346 millions of pesos at December 31st, 1968. This means that PEMEX transferred during this period the equivalent of 3.8 times its incurred debt until 1968.7/ Therefore, it is necessary to establish a well-integrated prices and subsidies policy program that should be for the six-year administration period though reviewed annually in order to reflect the real costs of the specific good or service, and except for special cases, it is convenient to establish a subsidies and transfers policy that is explicit and feasible for the firm itself, but also for the government and the country as a whole.

7/ Jesús Puente Leyva, Juventino Balderas M. y Gustavo Alarcón, "El costo de la industrialización en México durante la década de los sesenta: Protección arancelaria, exenciones fiscales y precios administrados", Memorias del Congreso del Colegio de Economistas, México, 1975.

IV. Policy Recomendations

Mexico's present stage of economic development requires that the national industry continue with the substitution of capital goods imports within a framework of specialization and orientation towards exports, while the stage of social development requires that the production and distribution of basic consumer goods be assured for the majority of the population.

The kind of problems that are present in the development of Mexico's capital goods sector make necessary the participation of public enterprises in its direction and implementation. An analysis of the characteristics of the sector shows that its major problems center in the market size, the required high levels of investment and its long maturity period, as well as the technical complexity requirements. Therefore, it is not feasible to expect that the development of the capital goods sector will depend only on the market stimulus, because it would not only be slow but inefficient , and it could fall under the control of foreigners. This demands deliberate action by the State so that by effective planning and programming , the integrated and efficient development of the domestic capital goods industry can be carried on by the public enterprise.

Strategy and objectives of the public enterprises policy

Strategy. The main element that the public enterprises strategy should include in the present stage of development is that they should no longer be considered as only an instrument to promote growth and to reorient development but also as an economic policy instrument.

Some of the elements that should be considered in the public enterprises development strategy are the following:

a) To formulate a short-and medium-run global strategy to define the role that should correspond to the public enterprise as an instrument of the State to attain the objectives of development,

b) To integrate the public enterprises policy with policies of other areas of the economy and of social development of the country, especially with the financial, fiscal, trade, industrial and labor policies, in order to be able to use the public enterprise not only as an instrument to promote economic and social development, but as an economic policy instrument as well.

c) To strengthen the role of the State as regulator of the national economy, in the areas of investment, production, marketing, financing

and labor relations, through the public enterprises. In this field, it shall be necessary to also define the relationship between the public enterprises and the domestic private sector as well as with the foreign investment sector.

d) To use in a more efficient way the comparative advantage that the adequately-managed public enterprises have in order to achieve an increasing domestic self-determination in the area of the country's productive and technological structure. As a matter of fact, the public enterprises are one of the main instrument that the State has to avoid, in a real and effective way, the increasing penetration of multinational enterprises in the Mexican economy.

e) To impinge, in an increasing way, on price determination (regulation) and on the modernization of the productive system by channelling the distribution effort of the public eneterprises, mainly in the area of strategic industry, capital and basic consumption goods. This assumes also the strengthening and consolidation of the state's financial and banking enterprises, in order to support on more healthy and solid bases the financing of all the public enterprises.

The above-mentioned elements could only be effectively incorporated in the strategy to the degree to which the government establishes the adequate mechanisms and the specific criteria to efficiently develop the planning and evaluation of the operation programs and of the expansion or growth programs of the public enterprises.

Objectives. Every public enterprise should have specific objectives and goals that depend on the firm's fuctions and production sector.

Nevertheless they should be consistent with the national socioeconomic policy objectives, such as, economic growth, employment, balance of payments, external independence and regional and factorial income distribution. They should also contain market efficiency goals such as economic profitability and self-financing capacity for their investment and expansion programs.

Recomendations on the Management of Policy Instruments

The classification of public enterprises according to the sector to which they belong (industry, communications and transports, agriculture, etc), as indicated by the Administrative Reform of December 29th, 1976, requires that the objectives, ends and specific policies for each firm and group of firms be framed in the plan and general policy of their own sector.

The State enterprises must consolidate and concentrate with high priority in the strategic branches and capital and basic consumption goods. The problem is not to sell or lose control over what is already in Government's hands but to reclassify and to adopt a stronger policy in strategic sectors that have been clearly defined as such, and to create and/or to acquire new enterprises under these criteria and not by random factors, or what is worse because they are bankrupt.

Once the fundamental definitions about policies and selection of priority and specific areas has been made, it is possible to begin the discussion about the characteristics which the association and cooperation with private national and foreign business groups under the premises of the Mexican mixed economic system should have.

It is essential to control the disperse operation of hundreds of trust funds, committees and commissions. For this reason a strong reform program of them must be carried out in order to substantially diminish their number by elimination and/or reclassification. Trust funds are often flexible and useful mechanisms, but they tend to survive even after the reasons for which they were created have disappeared. This calls for a more rigorous programming of their objectives and maturity dates.

In terms of labor policy, it would be useful to design a general strategy that in a certain time period would make the fringe benefits and contractual conditions more similar-with fairness and justice- to the ones operating in the country and which are written in the actual legislation.

Economic relations of public enterprises with other countries is one of the areas of high priority, and commercial as well as financial issues, would have to be carefully reviewed with these countries. It is suggested that the enterprises determine in due time and in a detailed manner their foreign exchange holdings and integrate their foreign exchange annual budget with estimates for the next five years. Optimization of their balance of payments results must be a crieterion for measuring the social return of public enterprises. In this sense, it is advisable that the Public Sector's Import Committee be given more authority. At the same time it must know in advance the priorities and estimated foreign exchange requirements of the public sector to avoid bottlenecks in this area, as it has happened before. Also, a program should be implemented that focuses sectorially the import substitution and the export promotion of the public sector and which

will make use of the isolated information and experiences already available.

The fundamental constraint, which is at the same time a sufficient condition, to improve the operation of public enterprises group is associated with their financial and investment policies. First, a long-run investment plan, specifically for strategic sectors, is essential with a combination of a financing policy of the State's financial institutions that places emphasis on longer maturities and more realistic policies. In summary, banks as well as firms must implement more sensible and realistic financial policies.

Disregarding firms which due to their nature are not expected to be profitable, the first financial criterion must be self-sufficiency, and they should advise the Government in what investment the profits are going to be applied. In this sense and where the particular situation advises so, the creation of holdings must be encouraged specially for groups of firms with similar characteristics.

In order to improve the firm's financial position and make possible their capacity expansion in a rapid way, an adequate policy of productivity, tariffs and prices must be formulated at the firms level, which should surpass the problem of cost increases, and which must be linked to the firm's requirements of capitalization. These prices and tariffs must be reviewed in a continuos fashion. Under this basis profitability criteria for each firms or group of enterprises could be developed, which could include, if necessary, social cost-benefit criteria as well.

The Government's policy concerning subsidies and transfers for public firms must follow a trend that minimize them and if necessary, the Government should establish them under specific criteria and for short periods, making them a function of technical standards, and, if possible, of progressive reduction arrangements previously established.

Conclusions

Developing countries' public enterprises should not only be considered as agents to promote economic growth and to reorient development, rather they should be used as an economic policy instrument. They should be taken as a means to directly and indirectly influence the attainment of global economic objectives, such as, external equilibrium, better income distribution, employment creation, price stability, etc.

Undoubtedly, this is the basic element of the Mexican public enterprises strategy at present.

The proposed strategy requires of planning more than of control.

In addition to avoid the lethargy that is implied by excessive centralization, it is essential to strengthen the coordination efforts at different levels of public enterprises planning:

A general policy and plan are required at the global macroeconomic level that define the public enterprises' strategy, objectives and goals, the general policies in terms of the strategic and priority sectors for the State and the policies in the fields of finance, investment, trade, integration (administrative, financial and commercial), prices, subsidies and labor.

A sectorial policy and plan are needed at an intermediate macroeconomic level that define the specific objectives, goals and requirements of public enterprises in accordance to their sector.

Finally, the projects policy and investment budget should be defined at a microeconomic level through the evaluation of every new or expansion project and through its relationship to the sectorial program and plan of the public enterprises as a whole.